



A REPORT  
TO THE  
MONTANA  
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

# *Department of Public Health and Human Services*

*For the Two Fiscal Years Ended  
June 30, 2007*

OCTOBER 2007

LEGISLATIVE AUDIT  
DIVISION

07-14

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# LEGISLATIVE AUDIT DIVISION

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October 2007

The Legislative Audit Committee  
of the Montana State Legislature:

This is our report on the financial-compliance audit of the Department of Public Health and Human Services for the two fiscal years ended June 30, 2007. This report includes recommendations to comply with state law related to accumulation of employee leave balances, improving compliance with legal requirements of the department's federal assistance programs, and modifying access to the electronic benefits transfer system.

We thank the director and her staff for the assistance and cooperation provided during the audit.

Respectfully submitted,

*/s/ Scott A. Seacat*

Scott A. Seacat  
Legislative Auditor

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## APPOINTED AND ADMINISTRATIVE OFFICIALS

### Department of Public Health and Human Services

Joan Miles, Director

John Chappuis, Deputy Director

Joyce DeCunzo, Administrator

Addictive and Mental Disorders Division

Laurie Lamson, CPA, Administrator

Business and Financial Services Division

Shirley K. Brown, Administrator

Child and Family Services Division

Lonnie J. Olson, Administrator

Child Support Enforcement Division

Hank Hudson, Administrator

Community and Human Services Division

Joe Mathews, Administrator

Disability Services Division

Mary Dalton, Administrator

Health Resources Division

Mary Angela Collins, Administrator

Operations and Technology Division

Jane Smilie, Administrator

Public Health and Safety Division

Jeff Buska, Administrator

Quality Assurance Division

Kelly Williams, Administrator

Senior and Long Term Care Division

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## REPORT SUMMARY

### Department of Public Health and Human Services

We performed a financial-compliance audit of the Department of Public Health and Human Services (department) for the two fiscal years ended June 30, 2007. We issued an unqualified opinion on the financial schedules for the fiscal year ending June 30, 2006. The reader may rely on the presented financial information and the supporting data on the state's accounting system for fiscal year 2005-06. We issued a qualified opinion on the financial schedules for the fiscal year ending June 30, 2007. The reader should use caution when using the information presented in the schedules, as well as the supporting data on the state's accounting system for fiscal year 2006-07. The opinion starts on page A-3.

This audit report contains 19 recommendations to the department. The issues discussed in this report include compliance with state law related to accumulation of employee leave balances, improving compliance with legal requirements of the department's federal assistance programs, and modifying access to the electronic benefits transfer system.

The department's response to our recommendations starts on page B-3 of the report document. The listing below serves as a means of summarizing the recommendations contained in the report, the department's response thereto, and a reference to the supporting comments.

#### Recommendation #1

We recommend the department:

- A. Continue to enhance compliance with state law related to vacation leave, and
- B. Charge only allowable leave costs to federal programs..... 10
- Department Response: Concur..... B-3

#### Recommendation #2

We recommend the department:

- A. Continue to enhance compliance with state policy related to exempt compensatory time, and
- B. Charge only allowable exempt compensatory time to federal programs. .... 12
- Department Response: Concur..... B-3

#### Recommendation #3

We recommend the department implement procedures to ensure the Women, Infants, and Children local agencies obtain proof of identity and documentation of income as required by federal regulations. .... 13



Department Response: Concur..... B-4

#### Recommendation #4

We recommend the department:

- A. Conduct timely monitoring reviews of the Women, Infants, and Children local agencies in accordance with federal regulations,
- B. Promptly notify the local agencies of noncompliance findings in accordance with federal regulations, and
- C. Obtain corrective action plans from local agencies within 60 days, in accordance with federal regulations..... 14

Department Response: Concur..... B-4

#### Recommendation #5

We recommend the department perform Women, Infants, and Children compliance investigations in accordance with federal regulations and department policy. .... 15

Department Response: Concur..... B-4

#### Recommendation #6

We recommend the department maintain adequate documentation of tuberculosis testing expenditures charged to the federal Substance Abuse, Prevention and Treatment grant in accordance with federal regulations. .... 16

Department Response: Concur..... B-4

#### Recommendation #7

We recommend the department implement procedures to ensure Bioterrorism grant expenditures are allowable under federal regulations..... 17

Department Response: Concur..... B-5

#### Recommendation #8

We recommend the department ensure adoptions receiving Federal Title IV-E funding are eligible for funding in accordance with federal regulations. .... 18

Department Response: Concur..... B-5

#### Recommendation #9

We recommend the department implement procedures to ensure supporting documentation related to providing adoption without a subsidy is included in each adoption case file in accordance with federal regulations..... 19

Department Response: Concur..... B-5

Recommendation #10

We recommend the department implement procedures to ensure foster care and adoption payment corrections and rate adjustments are adequately documented in accordance with federal regulations. ....20

Department Response: Concur..... B-6

Recommendation #11

We recommend the department conduct security reviews and risk analyses of data processing systems used to administer Medicaid as required by federal regulations. ....21

Department Response: Concur..... B-6

Recommendation #12

We recommend the department comply with state policies regarding the collection of Medicaid overpayments to inpatient hospitals. ....22

Department Response: Concur..... B-6

Recommendation #13

We recommend the department provide drug utilization data to manufacturers within 60 days after the end of the quarter as required by federal regulations. ....23

Department Response: Concur..... B-6

Recommendation #14

We recommend the department segregate electronic benefit transfer system code change and review responsibilities. ....24

Department Response: Concur..... B-6

Recommendation #15

We recommend the department provide contractors full electronic benefits transfer system database access only when needed.....25

Department Response: Concur..... B-7

Recommendation #16

We recommend the department improve benefit recipient identification procedures to detect unauthorized acquisition of replacement Montana Access cards. ....27

Department Response: Concur..... B-7

Recommendation #17

We recommend the department implement procedures to ensure fund balance transfers and valid liability transactions are recorded in accordance with state law. ....28

Department Response: Concur..... B-7

Recommendation #18

We recommend the department implement procedures to process payments to vendors in compliance with state law.....29

Department Response: Concur..... B-7

Recommendation #19

We recommend the department:

- A. Adopt administrative rules in accordance with state laws related to medical benefits for adopted children residing in another state and the Medical Marijuana Act.

Department Response: Concur..... B-8

- A. Send annual adoption applications for subsidy and medical assistance to adoptive parents in accordance with administrative rule.....30

Department Response: Concur..... B-8

# Chapter I – Introduction

## **Introduction and Scope of Audit**

We performed a financial-compliance audit of the Department of Public Health and Human Services (department) for the two fiscal years ended June 30, 2007. The objectives of the audit were to:

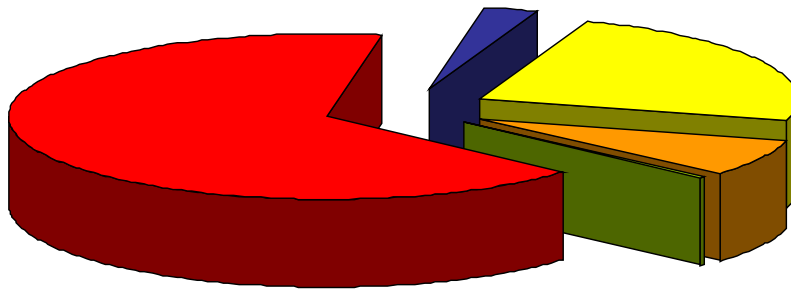
1. Determine whether the department complied with applicable state and federal laws and regulations.
2. Obtain an understanding of the department's control systems to the extent necessary to support our audit of the department's financial schedules and, if appropriate, make recommendations for improvements in management and internal controls of the department.
3. Determine the implementation status of prior audit recommendations.
4. Determine whether the department's financial schedules present fairly, the results of operations for the two fiscal years ended June 30, 2007.

This report contains 19 recommendations to the department. These recommendations address areas where the department can improve controls, and compliance with federal and state laws and regulations. Other concerns deemed not to have a significant effect on the successful operation of department programs have been discussed with department management and are not included in this report. In accordance with section 5-13-307, MCA, we analyzed and disclosed the cost, if significant, of implementing the recommendations in this report.

## **Background**

The department spent more than \$1 billion each year of the audit period administering social service and health programs for the state of Montana. The programs include Medicaid, economic assistance, developmental disabilities services, vocational rehabilitation, child and adult protective services, mental health services, substance abuse prevention and treatment, and public health services, including immunizations and disease control. Department facilities include: Montana State Hospital, Warm Springs; Montana Mental Health Nursing Care Facility, Lewistown; Montana Chemical Dependency Center, Butte; Eastern Montana Veterans Home, Glendive; Montana Veterans Home, Columbia Falls; and Montana Developmental Center, Boulder. Total expenditures by fund for the two fiscal years ended June 30, 2007, are identified in Figure 1. Benefits and Claims expenditures account for 77 percent of the total expenditures.

**Figure 1**  
**Total Expenditures by Fund**  
**For the Two Fiscal Years Ended June 30, 2007**  
**Amounts in Millions**

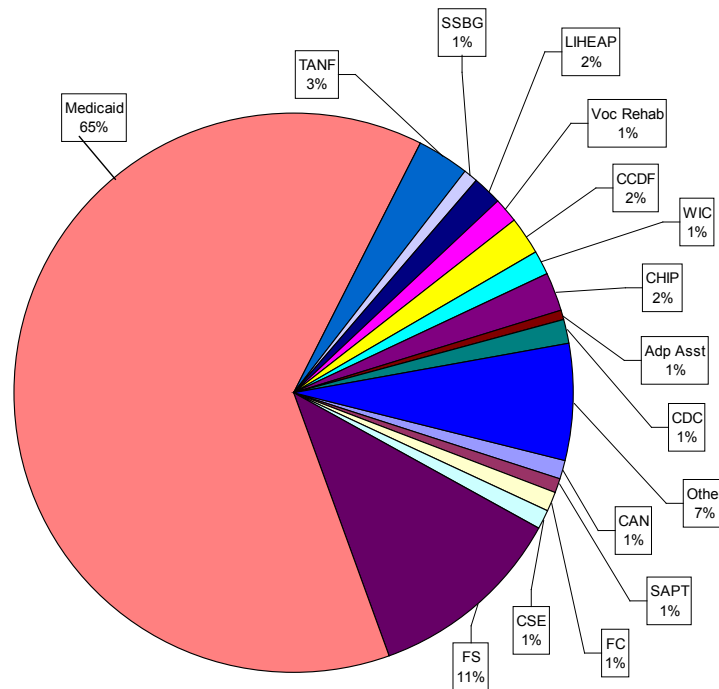


General Fund - \$626.7
State Special Revenue Fund - \$190.7
Debt Service Fund - \$5.9
Federal Special Revenue Fund - \$1,746.2
Permanent Fund - \$76

**Source: Compiled by the Legislative Audit Division from department accounting records.**

Federal regulations define a major federal program for the state of Montana as those with total federal expenditures equal to or exceeding \$11.6 million for the two fiscal years ended June 30, 2007. The department has 15 major federal programs with expenditures ranging between \$12.6 million and \$1,106.94 million for the two fiscal years ended June 30, 2007. Since these programs are considered major federal programs in the state of Montana, we spend substantial audit effort determining if these programs are in compliance with the federal Office of Management and Budget circular A-133. The following table identifies these programs and the related expenditures recorded on the state's accounting records.

**Figure 2**  
**Federal Program Expenditures for the Two Fiscal Years Ended June 30, 2007**



**Amounts in Millions**

Medicaid	\$1,106.94
Food Stamps (FS)	196.22
Other Non-Major Federal Programs (Other)	108.93
Temporary Assistance for Needy Family Program (TANF)	56.05
Child Care Development Fund (CCDF)	41.52
Children's Health Insurance Plan (CHIP)	35.09
Low Income Home Energy Assistance Program (LIHEAP)	28.76
Women, Infants, and Children (WIC)	26.28
Foster Care (FC)	23.39
Center for Disease Control (CDC)	23.10
Vocational Rehabilitation Grant to States (Voc Rehab)	21.52
Child Support Enforcement (CSE)	18.70
Child and Adult Nutrition (CAN)	18.09
Social Services Block Grant (SSBG)	14.92
Substance Abuse Prevention and Treatment (SAPT)	14.08
Adoption Assistance (Adp Asst)	12.60
<b>Total</b>	<b>\$1,746.19</b>

Source: Compiled by the Legislative Audit Division from department records.

During the two years ended June 30, 2007, the department was organized into 12 divisions. Descriptions of the 12 divisions are provided below. The department's organization chart and employee full-time equivalent position allocations are in the figure on page 6.

- 1) The Director's Office provides professional support to the agency's divisions by overseeing the overarching goals of the department.
- 2) The Child and Family Services Division provides protective services to children who are abused, neglected, or abandoned. This includes receiving and investigating reports of child abuse and neglect, working to prevent domestic violence, helping families to stay together or reunite, and finding placements in foster or adoptive homes.
- 3) The Child Support Enforcement Division provides services including locating absent parents, establishing paternity, establishing financial and medical support orders, enforcing current and past-due child support, offering medical and spousal support orders, and modifying child support orders.
- 4) The Technology Services Division provides technological support in areas critical to the efficient and effective implementation of department programs.
- 5) The Public Health and Safety Division oversees the coordination of the public health system in Montana. Services provided include nutrition support and health education (e.g., WIC and tobacco use prevention), screening services (e.g., breast and cervical cancer screening programs for uninsured women and HIV counseling and testing services), preventive services (e.g., immunization) and surveillance systems for infectious and chronic diseases, designed to detect and target those health threats that may impact a community.
- 6) The Quality Assurance Division monitors and ensures the integrity and cost-effectiveness of programs administered by the department.
- 7) The Human and Community Services Division's goal is to support the strengths of families and communities by promoting employment and providing the assistance necessary to help families and individuals meet basic needs and work their way out of poverty. The program provides cash assistance, employment training, food stamps, Medicaid benefits, child care, meal reimbursement, nutrition training, energy assistance, weatherization, and other services to help families move out of poverty and toward self-support.
- 8) The Addictive and Mental Disorders Division implements and improves a statewide system of prevention, treatment, care, and rehabilitation for Montanans with mental disorders or addictions to drugs or alcohol. The division achieves this by providing chemical dependency and adult mental health services through contracting with behavioral health providers. It also provides services through inpatient facilities at Montana State Hospital in Warm Springs, Montana Chemical Dependency Center in Butte, and Montana Mental Health Nursing Care Center in Lewistown. In addition, the Medicaid program funds outpatient and residential chemical dependency treatment for adolescents who are Medicaid recipients.

9) The Health Resources Division provides health care for low-income and disabled Montanans through Medicaid and the Children's Health Insurance Plan (CHIP). It does this by providing administration, policy development, and reimbursement for the primary and acute care portions of the Medicaid program. It also provides children's mental health services and health insurance coverage for children through CHIP.

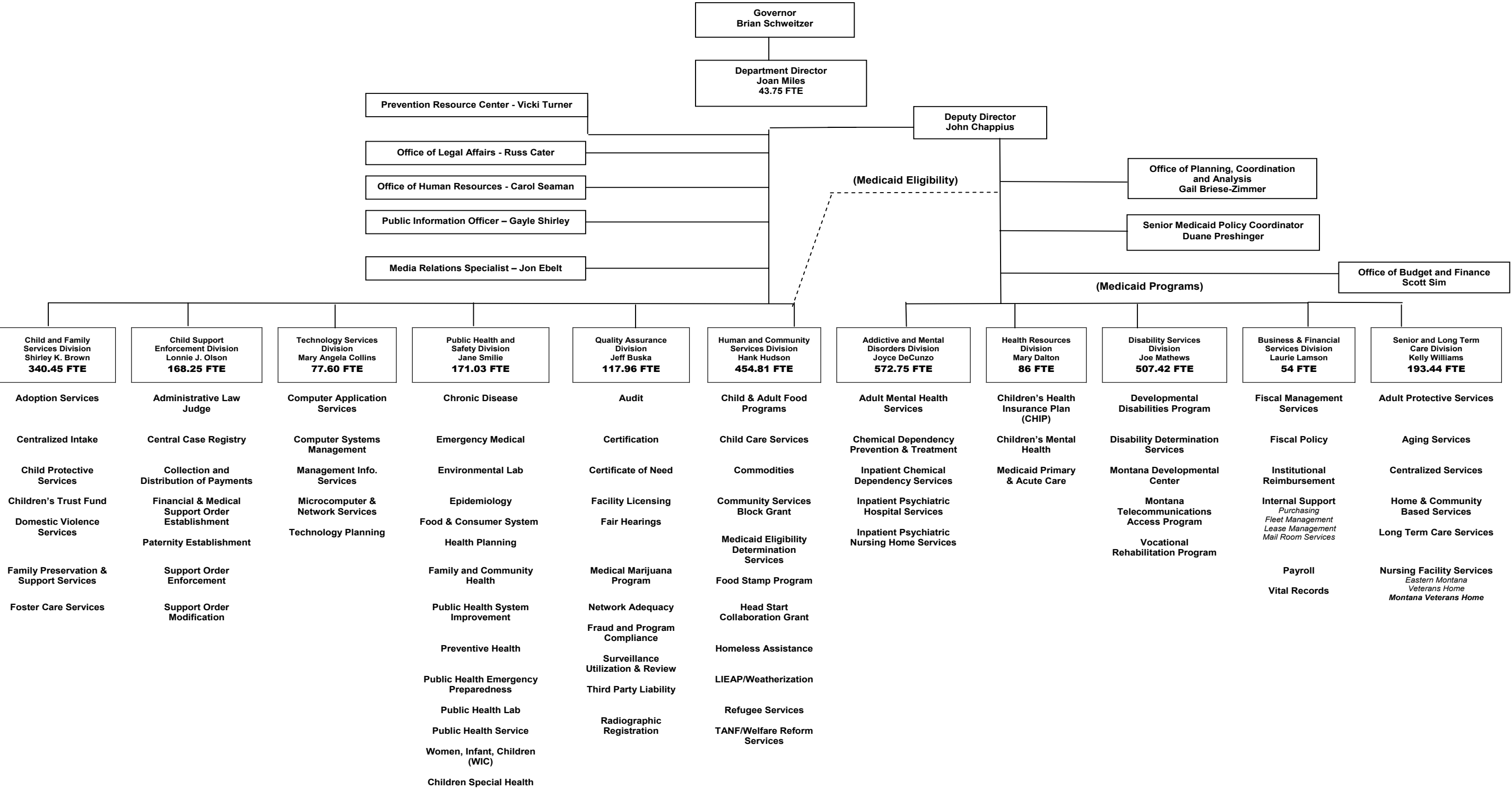
10) The Disability Services Division provides services that help Montanans with disabilities to live, work, and fully participate in their communities. It does this by providing residential services, community support, home-based services for families, case management, a variety of employment outcome-related services, telephone relay service and equipment, rehabilitation counseling, and specialized services for blind and visually impaired individuals. In addition, the Medicaid program funds many of these services for disabled Montanans who are Medicaid recipients.

11) The Business and Financial Services Division provides support services for the department including financial and accounting oversight, cash management, preparation and filing of federal financial reports, purchasing of supplies and equipment, payroll processing, audit coordination, lease management, mail handling, management of vital records and statistics, property and records management, accounts payable, and institutional reimbursements.

12) The Senior and Long-Term Care Division administers aging services, adult protective services, and the state's two veterans' homes. It also helps to fund care for elderly and disabled Montanans who are eligible for Medicaid and Supplemental Security Income (SSI). The division achieves this by providing information, education, and assistance; planning, developing and providing for quality long-term care services; and operating within a cost-effective service delivery system.



Figure 3  
Department of Public Health and Human Services  
Program Organizational Chart



Source: The Department of Public Health and Human Services Website.

## **Prior Audit Recommendations**

We determined the implementation status of the 18 prior audit recommendations directed to the department. The department implemented 11, partially implemented one, and did not implement six. The recommendations not implemented concern: local agency monitoring (page 12), corrective action plans (page 12), compliance investigations (page 13), inpatient hospital overpayments (page 19), Medicaid drug utilization data (page 20), and timeliness of expenditure reimbursements (page 25).

## **Questioned Costs**

In the report sections that follow, we identify, as questioned costs, expenditures of federal assistance that we believe do not comply with regulations of the federal program. Under federal audit requirements, the auditor questions costs associated with an audit finding when the costs result from a violation or probable violation of law or regulation governing the use of federal funds, when the costs are not supported by adequate documentation at the time of the audit, or when the costs incurred appear unreasonable. When federal program personnel resolve the audit issues and set corrective action plans, the federal government may require repayment, reduce the current federal award, or take no financial action on the questioned cost. The following table summarizes the department's federal questioned costs.

**Table 1**  
**Summary of Questioned Costs**

<b>Grant Title</b>	<b>Dollar Amount of Questioned Costs</b>	<b>Potential For Questioned Costs to Exceed \$10,000</b>	<b>Report Page</b>
Excess Vacation Leave-Various Grants	\$57,777	Yes	9
Excess Exempt Compensatory Leave-Various Grants	\$9,682	No	11
Women, Infants, and Children Program	\$2,605	Yes	12
Substance Abuse and Preventive Treatment	\$23,110	Yes	16
Centers for Disease Control and Prevention	\$10,664	Yes	17

**Source: Compiled by the Legislative Audit Division.**



## Chapter II – Findings and Recommendations

### Excess Vacation Leave Balances

---

**The department did not comply with state law related to the accumulation, use and payment for vacation leave.**

---

State law limits the accumulation of employee vacation leave to twice the amount an employee earns in a calendar year. Leave accumulated above these amounts is considered “excess” and must be used by the employee within the first 90 days of each calendar year. If the employee requests and management denies the use of excess leave during the 90-day period, forfeiture may be delayed until the end of the calendar year. In no case does the law allow excess vacation leave to be held past the end of a calendar year. The department has historically allowed excess vacation leave to be carried forward rather than forfeited as required by state law.

In an effort to manage employees’ excess vacation leave balances, the department implemented an excess leave policy in February 2004. This policy allows the carry forward and use of excess vacation leave beyond the amount allowed by state law. The department allowed 11 employees to carry forward excess annual leave until January 2007 when excess leave was finally forfeited. The department revised its leave policy in May 2006 to require forfeit of leave and to actively manage leave balances.

- ♦ Two of the 11 employees used various amounts of their excess vacation leave in 2005 and 2006 instead of forfeiting the leave as required by state law. The value of excess leave used in calendar years 2005 and 2006 was \$22,150.
- ♦ The department paid bonuses totaling \$129,000 to five of the 11 employees under the department’s broadband pay plan during calendar years 2005, 2006, and 2007. The bonuses were paid at various times during those years and each payment was calculated using the employees’ pay rate times the amount of excess leave that was forfeited.
- ♦ Two of the 11 employees were paid excess vacation leave upon termination:
  - One employee had excess vacation leave balances dating back to calendar year 2000. The department allowed the employee’s excess leave balance to increase each year until the employee resigned in December 2005. At that time, the employee’s accumulated leave balance was 1,713 hours. The maximum leave this employee could have legally accumulated as of December 2005 was 768 hours. The employee’s total accumulated leave balance of 1713 hours, including the 945 hours of excess vacation leave, was included in the Public Employee Retirement Administration’s and department’s final termination payout calculations. The dollar value of the excess vacation leave paid to this employee in calendar year 2005 was approximately \$41,600.

- A second employee's termination pay included approximately 100 hours of excess vacation leave totaling \$2,100 in calendar year 2005.

Department management said they implemented an excess vacation leave plan in February 2004 to eliminate the excess vacation leave recorded on the department's records. As part of the department's plan to reduce excess leave, management paid bonuses to employees under the department's broadband pay plan. Management said the broadband pay plan allows employees to be compensated for extra effort and a job well done. They said the excess vacation leave was used as a basis for the bonus calculations since they needed a way to value the employees' extra effort. However, only department management and professional staff with excess vacation leave balances were paid bonuses based on excess leave. State law allows vacation leave balances to be used, paid to the employee at termination or forfeited if the leave is not taken as required by law. Paying employees bonuses for vacation leave amounts in excess of those allowed by law circumvents the leave forfeiture provisions of state law.

The excess vacation leave paid to the department's employees was allocated to the department's federal programs through direct charges or through its cost allocation plan, resulting in approximately \$55,000 being allocated to various federal programs. The value of excess leave used by department employee's resulted in \$2,777 being charged to federal programs. According to federal regulations, expenditures are allowable costs of a federal grant if they are not prohibited under state law. Since the amounts paid to the department's employees and the value of the excess leave used by the department's employees are not allowable under state law, they are not allowable under federal regulations. Therefore, we question \$57,777 in costs charged to various federal programs in calendar years 2005, 2006, and 2007.

As of January 2007, the department does not have any employees with accumulated vacation leave balances in excess of the amount allowed under state law. The department should continue to monitor employees' vacation leave balances and ensure any excess leave is forfeited as required by state law. This will facilitate fair and consistent treatment of all department employees.

---

#### **RECOMMENDATION #1**

*We recommend the department:*

- A. Continue to enhance compliance with state law related to vacation leave, and*
  - B. Charge only allowable leave costs to federal programs.*
-

## **Excess Exempt Compensatory Leave Balances**

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**The department did not comply with state policy for the accumulation and use of exempt compensatory time in accordance with state policy.**

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The Administrative Rules of Montana (ARM) and state personnel policy limit the amount of exempt compensatory time an employee can accumulate and carry forward to the next calendar year to 120 hours. Exempt compensatory time accumulated above this amount at the end of a calendar year is considered excess and must be used by the employee within the first 90 days of the next calendar year, unless an employee's written request for such leave is denied and an extension is granted by the employing agency. The length of the extension is up to the discretion of the department head or designee, but is not to exceed December 31 each year. State policy requires excess exempt compensatory time not taken by December 31 to be forfeited. The department was not in compliance with the ARM or state policy in calendar years 2005 and 2006.

The department implemented an excess leave policy in February 2004 as discussed in the previous report section. The department allowed three employees to carry forward 1096 hours of excess compensatory leave. One of these three employees had 770 hours of excess exempt compensatory as of January 2006. This employee was allowed to use 338 hours of excess exempt compensatory in calendar years 2005 and 2006, which has a value of approximately \$21,210.

The excess exempt compensatory leave expenditure was allocated to the department's federal programs through its cost allocation plan, resulting in approximately \$9,682 being allocated to various federal programs. Federal regulations state expenditures are allowable costs of a federal grant if they are not prohibited under state policy. Since the value of the excess exempt compensatory leave used by the department's employee is not allowable under state law; it is not allowable under federal regulations. Therefore, we question \$9,682 in costs charged to various federal programs in calendar years 2005 and 2006.

As of January 2007, the department does not have any employees with accumulated exempt compensatory leave balances in excess of the amount allowed under state rule and policy. The department should continue to monitor employees' compensatory leave time balances and ensure any excess leave is forfeited as required by the ARM and state policy. This will facilitate fair and consistent treatment of all department employees.

---

**RECOMMENDATION #2**

We recommend the department:

- A. *Continue to enhance compliance with state policy related to exempt compensatory time, and*
  - B. *Charge only allowable exempt compensatory time to federal programs.*
- 

## **Federal Compliance**

We reviewed federal compliance requirements for the department's 15 major federal grants at the federal program level. Because federal grants are managed at the federal program level, the following federal compliance findings are organized by federal program.

### **Women, Infants, and Children Program**

The department receives funding from the federal government to operate the Supplemental Nutrition for Women, Infants, and Children (WIC) Program. The department provides vouchers to eligible households to purchase specific food items. To administer the program, the department contracts with local agencies that determine eligibility of recipients. The department spent approximately \$12.8 million and \$13.4 million of federal WIC assistance in fiscal years 2005-06 and 2006-07, respectively. The following three sections discuss compliance and control concerns with the WIC program.

#### **Eligibility**

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**WIC personnel do not obtain the required documentation from every applicant when making eligibility determinations.**

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We tested eligibility documentation for 24 WIC recipients at four local agencies to determine whether eligibility was properly determined based on federal regulations. We found four of the six recipient case files sampled at one local agency did not contain the required supporting documentation for eligibility. Two case files did not contain proof of identity and two did not contain documentation of income.

Federal regulations require the state or local agency to require each applicant to present proof of identity and to provide documentation of income at eligibility certification. The requirement to obtain proof of identity is necessary to avoid dual participation in the program.

WIC staff at the local agency indicated benefits cannot be denied for failure to provide proof of identity. WIC staff stated since most people living in the area are on some type of public assistance they are income eligible so proper documentation is not always required. We agree, most people living in the area are receiving some type of public assistance. However, state and federal regulations require proof of identity and documentation of income in order to be eligible to receive benefits.

Since the local agency does not have adequate documentation, we could not determine if the four applicants receiving WIC benefits were eligible. We question \$2,605 of WIC benefits issued to these four applicants in fiscal year 2005-06 and fiscal year 2006-07. From July 1, 2005, through June 14, 2007, WIC benefits provided by the local agency were \$576,719. Because the local agency does not always require proper documentation; we believe the potential questioned costs exceed \$10,000 in both fiscal year 2005-06 and 2006-07.

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**RECOMMENDATION #3**

*We recommend the department implement procedures to ensure the Women, Infants, and Children local agencies obtain proof of identity and documentation of income as required by federal regulations.*

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## Local Agency Monitoring

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**The department is not conducting monitoring reviews of all local agencies within two years, promptly notifying WIC local agencies of monitoring reports, or obtaining corrective action plans within 60 days.**

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Federal regulations require the department administering the WIC program to conduct monitoring reviews of each local agency at least once every two years, and promptly notify any local agencies of findings of non-compliance with program requirements identified in the monitoring review. Department procedures define “promptly” as 60 days. In addition, federal regulations indicate the department must require the local agency to submit a corrective action plan, including implementation timeframes, within 60 days of receipt of a monitoring review report.

The department uses a log to track the progress of monitoring reviews. The log showed department staff conducted 30 monitoring reviews during fiscal years 2005-06 and 2006-07 (as of April 30, 2007). Of these, ten were not conducted within the two-year requirement and three have been scheduled to be performed beyond the two-year requirement.



Upon completion of a monitoring review, the department notifies the local agency of findings identified and requests a corrective action plan. During our audit period, 10 of 29 monitoring reports issued were sent to local agencies more than 60 days after the review. The department did not receive seven of the local agency corrective action plans within 60 days.

Department personnel indicated staffing availability makes it difficult to complete the required tasks within the specified time frames. During our past two audits of the department, we have identified problems with the department monitoring local agencies in accordance with federal regulations.

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**RECOMMENDATION #4**

*We recommend the department:*

- A. Conduct timely monitoring reviews of the Women, Infants, and Children local agencies in accordance with federal regulations,*
  - B. Promptly notify the local agencies of noncompliance findings in accordance with federal regulations, and*
  - C. Obtain corrective action plans from local agencies within 60 days, in accordance with federal regulations.*
- 

## **WIC Compliance Investigations**

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**WIC personnel do not complete compliance investigations of WIC vendors according to federal regulations and department policy.**

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The department issues food vouchers for WIC recipients to use at grocery stores for specific food products. The stores price the products, fill the orders on the vouchers, and submit the vouchers to a clearing agent for payment.

**High-Risk Vendors** - Federal regulations require the department to identify high-risk vendors at least annually, based on criteria established by the department. Federal regulations also require the department to conduct compliance investigations, including inventory audits and/or compliance buys, on a minimum of five percent of the vendors authorized as of October 1 of each year.

Although the department has performed compliance investigations on vendors, the criteria used and reasons for identification of these vendors was not documented. Without documentation, the department cannot demonstrate the vendors identified were high-risk, based on criteria established by the department. In addition, the department does not have

documentation showing compliance investigations were completed on a minimum of five percent of the vendors authorized as of October 1 of each year.

**Procedures for Compliance Investigations** - Department personnel prepare, and federal officials approve, a state plan documenting procedures for performing compliance investigations. State plan requirements include the following procedures:

- ♦ Ranking high-risk vendors to determine the order in which compliance investigations will be performed,
- ♦ Notifying the vendor and the Local Agency Retailer Coordinator of the investigations, violations found and the subsequent consequences, and
- ♦ Obtaining a written response describing the corrective action plan within 30 days of when notification was sent to the vendor.

We found the department did not perform these procedures in all cases. The department did not rank high-risk vendors to determine the order in which to perform the compliance investigations, but instead performed them by geographic location. Department staff indicated they conduct investigations by geographic location to save on travel costs.

We selected a sample of four compliance investigations and found the department did not provide notification to one of the retailers or local agency retailer coordinator. In addition, the department did not obtain required corrective action plans for the other three compliance investigations. The department did not start requiring vendors to submit a corrective action plan until March of 2007. As of April 2007, the department had received only two vendor responses and one of the two was not on company letterhead, was not signed by the vendor, and did not describe the corrective action plan. The department accepted the vendor response without requesting further documentation.

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**RECOMMENDATION #5**

*We recommend the department perform Women, Infants, and Children compliance investigations in accordance with federal regulations and department policy.*

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## Substance Abuse, Prevention and Treatment Block Grant (SAPT)

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**The department could not adequately support expenditures charged to the SAPT grant.**

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The department administers the SAPT block grant. During fiscal years 2005-06 and 2006-07, the department recorded SAPT expenditures of approximately \$7 million each fiscal year. Federal regulations specify expenditure categories for each grant. We identified an issue related to inadequate documentation for costs charged to the grant.

The department does not have adequate documentation for tuberculosis expenditures charged to the SAPT block grant in fiscal year 2005-06. Expenditures for tuberculosis result from operations at the Montana Chemical Dependency Center (MCDC). The MCDC staff test each person for tuberculosis when admitted to the facility. In fiscal year 2005-06, the department estimated ten percent of the MCDC doctor and nurse's time is spent on tuberculosis testing. However, the department had no basis for the ten percent estimate or other supporting documentation for \$23,110 of tuberculosis expenditures charged to the federal grant. Federal regulations require distribution of expenses to be supported and adequately documented. Since the department does not have adequate documentation for the expenditures charged to the federal grant, we question \$23,110 of costs in fiscal year 2005-06. The department's SAPT tuberculosis expenditure documentation for fiscal year 2006-07 was adequate.

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### **RECOMMENDATION #6**

*We recommend the department maintain adequate documentation of tuberculosis testing expenditures charged to the federal Substance Abuse, Prevention and Treatment grant in accordance with federal regulations.*

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## Centers for Disease Control and Prevention

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### **The department cannot adequately support \$10,664 of expenditures charged to the Bioterrorism Grant.**

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The department receives funding from the federal government to operate the Centers for Disease Control and Prevention (CDC) program, which includes a Bioterrorism grant. We reviewed support for eight Bioterrorism expenditure transactions and found one duplicate transaction for \$10,664 recorded on the state's accounting records in fiscal year 2005-06.

When Bioterrorism staff provided supporting invoices for two different transactions, we found the support for both transactions included six of the same invoices. CDC purchases made using the state's purchasing card are originally charged to the General Fund and then allocated to the appropriate Federal Special Revenue Fund based on the supporting invoices. The department allocated the General Fund expenditures twice. Therefore, the General Fund expenditures are understated and the Bioterrorism fund expenditures are overstated by \$10,664, respectively.

To be allowable under federal regulations, costs must be necessary and reasonable for proper and efficient performance and administration of federal awards. Also, federal regulations require the department to adequately document costs in order to be allowable expenditures of the grant. Since the duplicate costs recorded on the state's accounting records were not necessary, they are not allowable costs of the grant. Therefore, we question \$10,664 of costs charged to the Bioterrorism grant in fiscal year 2005-06.

Department management indicated the duplicate transaction was a result of staff error. They said they have controls in place to review actual expenditures, but this error was not identified during the review because the transaction was recorded at month-end. Bioterrorism management should implement procedures to ensure transactions are reviewed more than just at month-end and to ensure transactions are allocated to the appropriate fund.

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#### **RECOMMENDATION #7**

*We recommend the department implement procedures to ensure Bioterrorism grant expenditures are allowable under federal regulations.*

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## Foster Care and Adoption

The department operates the Foster Care and Adoption programs with federal financial assistance under the provisions of Title IV-E of the Social Security Act. Federal foster care and adoption funds may be spent for maintenance payments on behalf of eligible children. Foster care payments are made to individuals providing foster care, to child care institutions, or to public or non-profit child placement or child care agencies. Adoption payments are made to adoptive parents who adopt eligible children with special needs. The following three sections discuss federal compliance issues related to the administration of Title IV-E foster care and adoption services.

### Adoption Benefits

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**The department paid an adoption subsidy for one child that was not eligible for federal funding.**

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In order for an adopted child to be eligible for federal Title IV-E funding, there must be a judicial determination in the first court ruling that sanctioned the removal of the child from the home. This ruling must state that continuation in the home would be contrary to the child's welfare. During our review of 25 adoption files, we found one case file that did not contain a contrary-to-welfare determination in the first court ruling. As a result, the department paid \$7,550 of adoption costs using federal Title IV-E adoption funding but the adoption was not eligible to receive federal Title IV-E funding.

Department management said they recently created a special Title IV-E unit to help determine federal Title IV-E eligibility in foster care and adoption cases. By May 2006, the Title IV-E unit reviewed all foster care cases, which included many adoption cases, but has not had a chance to do a complete review of all of the older adoption cases.

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**RECOMMENDATION #8**

*We recommend the department ensure adoptions receiving Federal Title IV-E funding are eligible for funding in accordance with federal regulations.*

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## Compliance with Federal Adoption Regulations

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**The department has inadequate documentation of its efforts to place children for adoption without a subsidy.**

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Federal regulations require the state to document in each child's adoption case file the specific factors that make the child difficult to place and describe the efforts to place the child for adoption without providing assistance. If the agency has determined the child cannot or should not return home and the child meets the statutory definition of special needs with regard to specific factors or conditions, then the agency can pose the question of whether the prospective adoptive parents are willing to adopt without assistance. If the adoptive parents say they cannot adopt the child without adoption assistance, the federal requirement is met. Based on discussion with department staff and review of 25 adoption case files, we determined the department does not have adequate documentation in each child's file identifying the specific factors that make the child difficult to place and the efforts used to place the child without providing adoption subsidy.

Department management stated they could improve the documentation for all adoptive placements to show they have complied with the requirements regarding their efforts to place a child without a subsidy agreement. They thought the subsidy agreement fulfilled the requirement of making a reasonable effort to place the child without a subsidy since the subsidy agreement includes a statement to that effect. However, the subsidy agreement itself does not adequately document the department's efforts to place a child without a subsidy agreement. This agreement does not give any specific details about the adoptive child or describe the department's efforts used to place the child without providing assistance. The department should develop a standardized method of documenting compliance with federal requirements applicable to placing a child in an adoptive family without a subsidy payment.

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### **RECOMMENDATION #9**

*We recommend the department implement procedures to ensure supporting documentation related to providing adoption without a subsidy is included in each adoption case file in accordance with federal regulations.*

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## Foster Care and Adoption Documentation

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### **Inadequate documentation of foster care and adoption payment corrections.**

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Department management indicated foster care and adoption payment corrections and rate adjustments require three levels of approval in Child and Adult Protective Services (CAPS) system before they are processed. However, there is no documentation requirement to be included in the CAPS system explaining why each of these transactions is necessary and how the adjustment was calculated. As long as a correction is for an allowable activity and the dollar amount does not seem unreasonable, the payment is usually approved by the various authorities, without them knowing all the details. The department processed approximately \$17,000 of federal foster care and adoption rate adjustments or correcting entries during our audit period. We reviewed 20 Foster Care case files and could not find support or documentation for one foster care payment correction and rate adjustment. Department management had contacted the field office staff to inquire about the rate adjustment and were still unable to determine how the rate was calculated. It appears the field office staff input the wrong rate. The correct rate is \$2.24 and they entered \$3.24, which resulted in an overpayment of \$31. The department's current procedures did not find this error and supporting documentation does not explain the rate change.

Federal regulations state, to be allowable under federal awards, costs must be necessary and reasonable for proper and efficient performance and administration of federal awards. Since the department does not have adequate support for the payment correction and rate adjustment we cannot determine if the cost is necessary or reasonable.

The department should develop a consistent method of documenting corrections and rate adjustments in the CAPS system to provide adequate information to support the costs. The documentation would allow the approver to review the adjustment detail and ask questions if needed.

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#### **RECOMMENDATION #10**

*We recommend the department implement procedures to ensure foster care and adoption payment corrections and rate adjustments are adequately documented in accordance with federal regulations.*

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## Medicaid

The department administers the Medicaid program to provide medical services to low-income individuals in Montana. Department personnel prepare, and federal officials approve, a state plan documenting the services that will be provided to Medicaid clients in Montana. The department adopts regulations to implement provisions of the Medicaid plan. In addition, the department complies with specific requirements in federal laws and regulations in operating the Medicaid program. In the following three sections, we discuss compliance concerns related to the Medicaid program.

### Medicaid Automated Data Processing System (ADP)

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**The department does not perform a system security review and risk analysis for all the Medicaid ADP systems.**

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The department does not perform periodic risk analyses or biennial system security reviews of the ADP systems used to administer Medicaid. Federal regulations require the department to establish and maintain procedures for review and analysis of data processing and system security issues for systems used to administer Medicaid. These regulations include directives regarding risk analyses to ensure both new and existing systems include cost effective controls. In addition, the department is required to perform risk analyses whenever significant system changes occur and to review system security installations on a biennial basis. At a minimum, the reviews are to evaluate physical and data security operating procedures and personnel practices. The department is required to maintain reports of its biennial ADP system security reviews, together with pertinent supporting documentation.

The ADP systems impacting the Medicaid program include: Medicaid Management Information System (MMIS), The Economic Assistance Management Systems (TEAMS), Agency Wide and Client Systems (AWACS), and Combined Health Information and Montana Eligibility System (CHIMES). Department management provided the following information concerning Medicaid ADP systems:

- ♦ An independent review of the MMIS control system is completed every year.
- ♦ Department management completed a security plan review for the TEAMS system in March 2006.
- ♦ Department staff completed an internal audit of the purchasing application within the AWACS system in July 2007.
- ♦ CHIMES is the new Medicaid system, which is still in the development phase. This system will include a risk management and security plan.



The department's reviews and audits do not include all the federal requirements discussed above. Specifically, they do not include risk analyses to ensure both new and existing systems include cost effective controls. Manual procedures (work-arounds) have been adopted to facilitate proper processing of data. Currently, there are twelve work-arounds in TEAMS, which could degrade the efficiency and effectiveness of the collective Medicaid ADP system. In addition, the recent Legislative Audit Division Information System audit (07DP-06) of Medicaid claims, recipient and provider data stored within the MMIS reported several control deficiencies. These combined work-arounds and control deficiencies indicate the department has increased risks related to its ADP systems. Management said they are currently developing plans to assure future assessments of the Medicaid ADP systems are in compliance with federal regulations.

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**RECOMMENDATION #11**

*We recommend the department conduct security reviews and risk analyses of data processing systems used to administer Medicaid as required by federal regulations.*

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## **Inpatient Hospital Overpayments**

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**The department failed to timely collect receivables for Medicaid hospital overpayments.**

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The department pays for inpatient hospital services of Medicaid eligible clients through the use of rates based on the costs incurred by providers. Inpatient hospital providers paid under a cost-based contract are required to submit a cost report to the department each year. The department uses data from the cost report to determine whether the state has overpaid or underpaid the provider. When department personnel detect an overpayment, they are to notify the provider and establish a receivable on the state's accounting records.

State policy requires the department to collect the overpayments by making deductions from subsequent payments to the provider, with full recovery to be completed within 60 days from the date of the initial request for payment.

During our audit period, the department established 63 receivables, of which 13 were not repaid by the hospital within 60 days. These repayments were made from 64 days to 217 days after the hospital was notified. The total amount of the 13 outstanding receivables is \$1,562,928.

According to the department staff assigned cost recovery duties, withholding overpayments from current billings is used only if the provider requests the department withhold future payment. When the provider does not refund the overpayment, the department sends the provider additional notices or makes payment arrangements, the staff said.

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**RECOMMENDATION #12**

*We recommend the department comply with state policies regarding the collection of Medicaid overpayments to inpatient hospitals.*

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## Drug Utilization Data

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**The department does not submit Medicaid drug utilization data within 60 days.**

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The Social Security Act requires the Medicaid program to use prescription drugs that are subject to manufacturer rebates. Federal regulations require the department to provide drug utilization data to drug manufacturers no later than 60 days after the end of each quarter so the drug rebates can be calculated. Drug utilization data is provided to the manufacturers in the form of invoices. We reviewed seven invoices sent to the manufacturer during the audit period and none of the invoices met the 60-day requirement. The invoice submission dates ranged from 61 to 96 days after the end of each quarter.

Department staff indicated the state relies on the federal government to provide the rebate percentages for the drugs within 45 days of the quarter end. The receipt of those percentages can sometimes be later than 45 days. This compresses the remaining tasks involved in preparing the drug utilization data into a two-week or less period. Department staff also indicated invoices are not prepared until the end of the month because manufacturers could send payments in for prior invoices and they do not want to double-bill them. However, the department could bill manufactures for only the current quarter, or bill for the current quarter and include prior unpaid balances.

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**RECOMMENDATION #13**

*We recommend the department provide drug utilization data to manufacturers within 60 days after the end of the quarter as required by federal regulations.*

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## **Electronic Benefit Transfer System**

Montana Access is the program used by the department to distribute federal Food Stamp and Temporary Assistance for Needy Families (TANF) program funds and department-managed Child Support funds to Montana citizens. The underlying computer network is referred to as the Electronic Benefits Transfer system (EBT) and has been in operation since 2002. EBT hardware and operation is administered by the department and is supported by the EBT contractor. Specifically, the department is responsible for maintaining the production environment including EBT hardware, operating system maintenance, database maintenance and system modification migration; the contractor is responsible for software support, EBT subcontractors, full time cardholder support and retailer help desk support, and Montana Access card issuance.

From July 2006, through November 2006, EBT processed the following monthly averages:

	<b><u>Participants</u></b>	<b><u>Benefit Amounts</u></b>
Food Stamps	35,323	\$7,875,267
TANF EBT	2,105	\$875,173
Child Support	5,120	\$1,236,750

**Note:** The above participant averages are not unique counts since a participant may have multiple benefit types.

Computerized systems such as EBT generally have two methods of being accessed: front-end access (access through the system's software, usually by users) and back-end access (direct access to system software and hardware without accessing through the system's software). While reviewing both front-end and back-end access, we identified three areas where controls could be improved. These areas are discussed in detail below.

## **Inadequate Migration Procedures**

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**The department should segregate responsibilities for code changes.**

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When a computer or network program needs to be changed or upgraded a migration process is performed. A migration is the movement of programming code from one system, usually a test environment, to the live (production) system. Department staff perform migrations using an administrator-level account, meaning an account having full access to the systems involved. Six department EBT staff perform migrations using a shared administrator-level account. Because of its shared nature, use of this account does not provide accountability for changes made.

We determined individuals responsible for migrating code changes are also responsible for monitoring the appropriateness of code changes. Individuals with administrator-level account access can update, change, delete or create additional EBT program code. The department does not have a monitoring system to check if an administrator-level account was used to modify program code. The program code controls the daily process of the EBT system and, if altered, could cause the system to malfunction or potentially deny EBT cardholders' full access to their benefits.

Department management said administrator-level account access is needed for all the on-call staff in case of computer system problems. However, the same person should not be able to change and then migrate the code changes unless a review is done after the migration by an individual not having access to the administrator-level account.

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**RECOMMENDATION #14**

*We recommend the department segregate electronic benefit transfer system code change and review responsibilities.*

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## **Contractor Access**

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**The department's contract staff have more access than needed to perform job duties.**

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The EBT production database contains data such as recipient demographics, benefit amounts, when a benefit is allowed to be accessed by a recipient, and Montana Access card numbers. The EBT database is operated by department staff; however, eight contract staff have full EBT database access. A person with full database access has the ability to access production data and change or remove benefit amounts, benefits receipt and/or release dates, remove database files or insert program code to remove database files at a future date.

The EBT production database access should be managed to prevent an individual from having control over two or more aspects of an operation including building, testing and operating the system. Department contract staff stated the full EBT database access is necessary to perform the contracted EBT software support duties. Department management said they have not limited the EBT contractors access because contractors need access to ensure EBT software continues to run as expected. However, management said full EBT database access is not necessary and access could be limited then restored when needed, even during non-business hours. The contractor only used the full EBT database access twice in the last year.

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**RECOMMENDATION #15**

*We recommend the department provide contractors full electronic benefits transfer system database access only when needed.*

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## **Benefit Recipient Identification**

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### **The department's replacement procedures for lost or stolen Montana Access cards are insufficient.**

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When recipients receive their Montana Access issued benefits they access the benefits using a card similar to a debit card. If recipients lose the cards, they can call the Montana Access help desk, be identified through demographic data stored in the EBT system (such as birth date, social security number, address, etc.) and request a replacement. Once the recipients receive the replacement cards, they call the help desk to create a new Personal Identification Number (PIN) for the new card, making it available for use.

We determined existing benefit recipient identification procedures are inadequate to prevent or deter unlawful acquisition of replacement Montana Access cards. Replacement cards are obtained based on demographic data stored in the EBT system. We identified 57 individuals with access to the EBT system and the demographic data used to identify a recipient in replacing their Montana Access card. Currently, a person requesting a replacement card is not required to identify themselves other than by providing their demographic data. Any department staff and contractors with access to demographic data can obtain and activate a Montana Access replacement card with three phone calls: the first to change a recipient's address, the second to request the replacement card, which would be mailed to the changed address, and the third to activate the replacement card. Access or use of food stamp benefits by recipients not entitled to those benefits is prohibited by state law.

The most susceptible benefits are those due to be expunged for lack of use. Food stamp recipients have up to a year and TANF up to 180 days to use their benefits; if not used the benefits are expunged, or removed from availability. Since the benefits have not been accessed within those time periods the original recipients are less likely to notice if someone else is accessing their benefits, increasing the chance benefits can be used unlawfully without being noticed. We reviewed February 2007, and determined food stamp and TANF benefits due to be expunged for the month totaled \$41,005.

Montana Access card replacements in January and up to February 13, 2007, totaled 2,626. We compared recipients with benefits due to be expunged in March 2007, with recipients in January and February 2007, who ordered replacement cards. We found no evidence of replacement cards being wrongfully ordered. This comparison demonstrates one method of monitoring for unlawful acquisition of replacement Montana Access cards. We also contacted three surrounding states and all were concerned about the adequacy of their recipient identification procedures for replacement cards.

- ♦ One state is currently working on reports showing address changes and a comparison of employee addresses to EBT addresses.
- ♦ One state requires signatures of the person issuing a replacement card and the person receiving the card.
- ♦ One state is in the process of deciding what type of monitoring reports to develop.

EBT project management said the risk of allowing access to the EBT system and demographic data necessary to obtain new Montana Access cards has not been something considered. Using the methods listed above (or others) could strengthen benefit recipient identification procedures preventing or detecting unlawful acquisition of replacement cards.

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#### **RECOMMENDATION #16**

*We recommend the department improve benefit recipient identification procedures to detect unauthorized acquisition of replacement Montana Access cards.*

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## **State Compliance**

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**In addition to the state compliance issues addressed on pages 9 through 12, the following three sections address further compliance issues.**

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## **Accounting Errors and Misstatements**

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**Accounting Errors Contributing to the Independent Auditor's Report Qualification on page A-3.**

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State law requires the department to input all necessary transactions before the end of the fiscal year to present the receipt, use, and disposition of all money and property, for which it is accountable, in accordance with generally accepted accounting principles. The

following sections describe two significant errors recorded on the department's accounting records during fiscal year-end 2006-07.

- ♦ Section 16-11-119(2), MCA, states if money in the State Special Revenue Fund for the operation and maintenance of state veterans' homes exceeds \$2 million at the end of the fiscal year, the excess must be transferred to the state General Fund. At fiscal year-end 2006-07, the department had \$4,115,855 of excess funds to be transferred to the General Fund. Department staff recorded the fiscal year-end transaction to move excess cash but the transaction was recorded backwards. Department staff found the error but were not able to make the correcting entry before fiscal year-end closing. As a result, ending fund balance is overstated and expenditures & transfers-out are understated in the State Special Revenue Fund; ending General Fund balance and revenues & transfers-in are understated by \$8,231,710, respectively for fiscal year 2006-07.
- ♦ Department staff recorded a valid liability to the federal government in the General Fund at fiscal year-end 2005-06. At fiscal year-end 2006-07, department staff again recorded a transaction for the same liability. As a result, the ending fund balance in the General Fund is understated and liabilities to the federal government are overstated by \$1,311,300 at June 30, 2007.

These issues contributed to the Independent Auditor's Report qualification on page A-3. Department management said the accounting errors were the result of oversight. The department has fiscal year-end procedures that include a review of high-risk transactions. However, the above two transactions were not on the high risk list in fiscal year 2006-07. The department should expand its current fiscal year-end procedures to address more of the department's financial activity.

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#### **RECOMMENDATION #17**

*We recommend the department implement procedures to ensure fund balance transfers and valid liability transactions are recorded in accordance with state law.*

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## **Timeliness of Expenditure Reimbursements**

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**The department did not pay interest when paying invoices beyond 30 days as required by state law.**

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Some vendors submit monthly expenditure reports to the department for reimbursement. Section 17-8-242, MCA, requires the department to pay interest at the rate of 0.05 percent each day on amounts due if payment is not made within 30 days after receipt of a properly

completed invoice, so long as a different reimbursement schedule is not specified by contract.

We reviewed all of the monthly expenditure reports submitted from October, 2005, through February, 2007, for one program and found 10 instances where the department did not pay within 30 days. The department did not pay interest to any of the vendors. The total interest owed to these vendors for all 10 instances is \$810. The late payments were made from one to 10 days beyond the 30-day requirement.

The department is not in compliance with state law and did not implement our prior audit recommendation related to timely payments. Department management indicated staff availability was the reason for the late payments. They do not pay interest to any local agencies when payments are late, but just try to make payments as soon as possible.

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**RECOMMENDATION #18**

*We recommend the department implement procedures to process payments to vendors in compliance with state law.*

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## **Administrative Rules**

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**The department is not in compliance with state laws and the administrative rule related to medical benefits for adopted children residing in another state, the medical marijuana act, and annual adoption subsidy applications.**

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The three examples we found during our audit include:

- ♦ Section 42-10-127(3), MCA, requires the department to adopt rules related to providing medical coverage and benefits for adopted children residing in another state. During our past two audits, we have identified noncompliance with this statute. During our last audit, the department initiated adoption of rules so we made no further recommendation. However, the department still has not adopted rules.

Department staff responsible for adopting rules stated they disagreed with our prior audit recommendation because they thought the Medicaid Manual adequately addressed these rules. However, new adoption program staff stated it is a priority.

- ♦ Section 50-46-210, MCA, requires the department to adopt rules necessary for persons that qualify for the medical marijuana program. The department has not adopted rules as required. Department staff indicated the language in the Medical Marijuana Act was sufficient for the implementation and administration of the



act. However, state law requires the department's rules to establish application and renewal fees. The fees are not included in the Medical Marijuana Act.

- ♦ In order for adoptive parents to receive subsidized adoption payments an agreement must be signed indicating the amount and duration of the subsidy. The department's administrative rule, ARM 37.52.210, requires an annual application for subsidy and medical assistance be sent to the adoptive parents. However, the federal adoption cognizant agency no longer requires an annual application. As a result, the department no longer sends annual applications to adoptive parents. The department should update or repeal its administrative rule, but until that time, the department should follow the rule.

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#### **RECOMMENDATION #19**

*We recommend the department:*

- A. *Adopt administrative rules in accordance with state laws related to medical benefits for adopted children residing in another state and the Medical Marijuana Act.*
  - B. *Send annual adoption applications for subsidy and medical assistance to adoptive parents in accordance with administrative rule.*
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# **Independent Auditor's Report & Department Financial Schedules**



## LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor  
Tori Hunthausen,  
Chief Deputy Legislative Auditor



Deputy Legislative Auditors:  
James Gillett  
Angie Grove

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee  
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Public Health and Human Services for each of the fiscal years ended June 30, 2007, and 2006. The information contained in these financial schedules is the responsibility of the department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the department's assets and liabilities.

The department made errors in recording the transfer of state veterans' homes excess funds from the State Special Revenue Fund to the General Fund in fiscal year 2006-07. On the Schedules of Changes in Fund Balances & Property Held in Trust, General Fund Nonbudgeted Revenues & Transfers-In and Fund Balance at June 30, 2007, are understated by \$8,231,710. On the same schedule, State Special Revenue Fund Nonbudgeted Expenditures & Transfers-Out are understated and Fund Balance at June 30, 2007, is overstated by \$8,231,710. On the Schedule of Revenues & Transfers-In, General Fund Other Financing

Sources and Nonbudgeted Revenues & Transfers-In are understated by \$8,231,710. On the Schedule of Expenditures & Transfers-Out in the Senior & Long-Term Care program, Accounting Entity Transfers, State Special Revenue Fund Total Expenditures & Transfers-Out, and Nonbudgeted Expenditures are understated by \$8,231,710.

In fiscal year 2006-07, the department mistakenly recorded a direct entry to fund balance in the General Fund. On the Schedule of Changes in Fund Balances & Property Held in Trust, General Fund Direct Entries to Fund Balance and Fund Balance at June 30, 2007, are understated by \$1,311,300.

In our opinion, except for the effects of the errors discussed in the preceding paragraphs, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances & property held in trust of the Department of Public Health and Human Services for each of the fiscal years ended June 30, 2007, and 2006, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

*/s/ James Gillett*

James Gillett, CPA  
Deputy Legislative Auditor

October 3, 2007

DEPARTMENT OF PUBLIC HEALTH & HUMAN SERVICES  
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Agency Fund	Permanent Fund
FUND BALANCE: July 1, 2006	\$ (26,596,060)	\$ 46,452,362	\$ 539,533	\$ 4,197,338	\$ 0	\$ 65,784,029
PROPERTY HELD IN TRUST: July 1, 2006					\$ 1,670,138	
<b>ADDITIONS</b>						
Budgeted Revenues & Transfers-In	6,673,292	43,911,065	787,043,369			
Nonbudgeted Revenues & Transfers-In	26,702	2,817,465	90,362,574	3,044,844		22,908,675
Prior Year Revenues & Transfers-In Adjustments	1,756,184	698,979	(15,506,012)			
Direct Entries to Fund Balance	307,858,992	76,636,632	(978,450)			
Additions to Property Held in Trust					83,319,478	
Total Additions	316,315,170	124,064,141	860,921,481	3,044,844	83,319,478	22,908,675
<b>REDUCTIONS</b>						
Budgeted Expenditures & Transfers-Out	318,924,778	92,846,939	877,526,152			
Nonbudgeted Expenditures & Transfers-Out	5,822	12,374,983	141,135	2,941,342		4,208,267
Prior Year Expenditures & Transfers-Out Adjustments	(2,724,814)	(647,722)	(15,791,636)			
Reductions in Property Held in Trust					83,225,925	
Total Reductions	316,205,786	104,574,200	861,875,651	2,941,342	83,225,925	4,208,267
FUND BALANCE: June 30, 2007	\$ (26,486,676)	\$ 65,942,303	\$ (414,637)	\$ 4,300,840	\$ 0	\$ 84,484,437
PROPERTY HELD IN TRUST: June 30, 2007					\$ 1,763,691	

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF PUBLIC HEALTH & HUMAN SERVICES  
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Agency Fund	Permanent Fund
FUND BALANCE: July 1, 2005	\$ (21,886,719)	\$ 19,570,130	\$ (1,941,131)	\$ 4,154,056	\$ (232)	\$ 58,565,201
PROPERTY HELD IN TRUST: July 1, 2005					\$ 1,436,484	
<b>ADDITIONS</b>						
Budgeted Revenues & Transfers-In	15,616,541	40,938,885	793,322,393			
NonBudgeted Revenues & Transfers-In	189,772	2,016,220	90,155,317	2,999,329		10,606,355
Prior Year Revenues & Transfers-In Adjustments	815,701	(1,148,862)	3,103,738	(7,911)		
Direct Entries to Fund Balance	289,154,942	71,166,879	207,804		232	
Additions to Property Held in Trust					81,005,390	
Total Additions	305,776,956	112,973,122	886,789,252	2,991,418	81,005,622	10,606,355
<b>REDUCTIONS</b>						
Budgeted Expenditures & Transfers-Out	309,837,251	79,747,338	880,416,296			
NonBudgeted Expenditures & Transfers-Out	403,285	5,432,030	262,133	2,948,136		3,387,527
Prior Year Expenditures & Transfers-Out Adjustments	245,761	911,522	3,630,159			
Reductions in Property Held in Trust					80,771,736	
Total Reductions	310,486,297	86,090,890	884,308,588	2,948,136	80,771,736	3,387,527
FUND BALANCE: June 30, 2006	\$ (26,596,060)	\$ 46,452,362	\$ 539,533	\$ 4,197,338	\$ 0	\$ 65,784,029
PROPERTY HELD IN TRUST: June 30, 2006					\$ 1,670,138	

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Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF PUBLIC HEALTH & HUMAN SERVICES  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

TOTAL REVENUES & TRANSFERS-IN BY CLASS	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Permanent Fund	Total
Licenses and Permits	\$ 61,776	\$ 764,797				\$ 826,573
Charges for Services	12,445,555	16,917,265	\$ 1,223			29,364,043
Investment Earnings	10,843	2,833,222	80,672	\$ 293,703	\$ 4,351,079	7,569,519
Fines, Forfeits and Settlements		12,745,639	40,788		10,404,603	23,191,030
Sale of Documents, Merchandise and Property	1,955	216,133				218,088
Rentals, Leases and Royalties	1,099	28,787				29,886
Miscellaneous	8,319	165,004	33,586			206,909
Grants, Contracts, Donations and Abandonments		7,656,957				7,656,957
Other Financing Sources	(4,078,885)	4,562,768	1,210,846	2,751,141	8,152,993	12,598,863
Federal	5,516	1,522,925	813,823,191			815,351,632
Federal Indirect Cost Recoveries		14,012	46,709,625			46,723,637
Total Revenues & Transfers-In	8,456,178	47,427,509	861,899,931	3,044,844	22,908,675	943,737,137
Less: Nonbudgeted Revenues & Transfers-In	26,702	2,817,465	90,362,574	3,044,844	22,908,675	119,160,260
Prior Year Revenues & Transfers-In Adjustments	1,756,184	698,979	(15,506,012)			(13,050,849)
Actual Budgeted Revenues & Transfers-In	6,673,292	43,911,065	787,043,369	0	0	837,627,726
Estimated Revenues & Transfers-In	12,051,697	99,247,503	981,629,765			1,092,928,965
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (5,378,405)	\$ (55,336,438)	\$ (194,586,396)	\$ 0	\$ 0	\$ (255,301,239)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Licenses and Permits	\$ 5,978	\$ (12,148,587)				\$ (12,142,609)
Charges for Services	(1,029,667)	(252,261)	\$ (3,355,290)			(4,637,218)
Investment Earnings	9,843	1,332,802	30,162			1,372,807
Fines, Forfeits and Settlements	(9,871)	(17,406,566)	25,788			(17,390,649)
Sale of Documents, Merchandise and Property	776	4,282				5,058
Rentals, Leases and Royalties	(35,864)	(16,487)				(52,351)
Miscellaneous	(4,766)	(2,769,217)	(11,100)			(2,785,083)
Grants, Contracts, Donations and Abandonments		(535,415)	(21,000)			(556,415)
Other Financing Sources	(4,319,820)	(10,555,922)	(33,190,000)			(48,065,742)
Federal	4,986	(12,951,053)	(150,010,772)			(162,956,839)
Federal Indirect Cost Recoveries		(38,014)	(8,054,184)			(8,092,198)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (5,378,405)	\$ (55,336,438)	\$ (194,586,396)	\$ 0	\$ 0	\$ (255,301,239)

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DEPARTMENT OF PUBLIC HEALTH & HUMAN SERVICES  
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Permanent Fund	Total
<b>TOTAL REVENUES &amp; TRANSFERS-IN BY CLASS</b>						
Licenses and Permits	\$ 126,231	\$ 732,766				\$ 858,997
Charges for Services	13,590,542	14,775,283	\$ 4,764			28,370,589
Investment Earnings	5,714	1,238,137	61,267	\$ 265,378	\$ 327,189	1,897,685
Fines, Forfeits and Settlements		12,177,006	17,225		9,940,413	22,134,644
Sale of Documents, Merchandise and Property		214,572				216,407
Rentals, Leases and Royalties		30,944				33,257
Miscellaneous	1,835	552,379	34,144			632,870
Grants, Contracts, Donations and Abandonments	2,313	6,950,187	2,144			6,952,331
Other Financing Sources	46,347	3,185,581	1,448,637	2,726,040	338,753	10,545,794
Federal	2,846,783	1,923,348	838,545,177			840,470,774
Federal Indirect Cost Recoveries	2,249	26,040	46,488,090			46,494,130
Total Revenues & Transfers-In	16,622,014	41,806,243	886,581,448	2,991,418	10,606,355	958,607,478
Less: Nonbudgeted Revenues & Transfers-In	189,772	2,016,220	90,155,317	2,999,329	10,606,355	105,966,993
Prior Year Revenues & Transfers-In Adjustments	815,701	(1,148,862)	3,103,738	(7,911)		276,266
Actual Budgeted Revenues & Transfers-In	15,616,541	40,938,885	793,322,393	0	0	849,877,819
Estimated Revenues & Transfers-In	15,643,252	98,080,376	947,965,361			1,061,688,989
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (26,711)	\$ (57,141,491)	\$ (154,642,968)	\$ 0	\$ 0	\$ (211,811,170)
<b>BUDGETED REVENUES &amp; TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS</b>						
Licenses and Permits	\$ 54,793	\$ (9,678,552)				\$ (9,623,759)
Charges for Services	(2,634,500)	(493,926)	(3,343,597)			(6,472,023)
Investment Earnings	5,714	(262,100)	33,262			(223,124)
Fines, Forfeits and Settlements	(9,815)	(18,342,412)	7,225			(18,345,002)
Sale of Documents, Merchandise and Property	684	(2,316)				(1,652)
Rentals, Leases and Royalties	(34,439)	30,944				(3,495)
Miscellaneous	32,896	(1,516,005)	(11,414)			(1,494,523)
Grants, Contracts, Donations and Abandonments	2,555,950	(4,024,591)	(33,190,000)			(4,024,591)
Other Financing Sources	2,026	(10,222,376)	(115,582,890)			(40,856,426)
Federal		(12,627,753)	(115,582,890)			(128,208,617)
Federal Indirect Cost Recoveries		(2,404)	(2,555,554)			(2,557,958)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (26,711)	\$ (57,141,491)	\$ (154,642,968)	\$ 0	\$ 0	\$ (211,811,170)

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DEPARTMENT OF PUBLIC HEALTH & HUMAN SERVICES  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	Addictive & Mental Disorders	Child & Adult Health Resources	Child & Family Services	Child Support Enforcement	Director's Office	Disability Services Division	Fiscal Services Division	Human & Community Services	Operations & Technology	Public Health & Safety Division	Quality Assurance Division	Senior & Long-Term Care	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT													
Personal Services													
Salaries	\$ 21,593,083	\$ 2,552,881	\$ 12,699,447	\$ 6,005,022	\$ 3,379,322	\$ 16,001,000	\$ 2,621,235	\$ 15,182,450	\$ 2,541,679	\$ 6,536,096	\$ 4,288,218	\$ 6,372,970	\$ 99,773,403
Hourly Wages						8,481							8,481
Employee Benefits	9,769,731	827,797	4,367,383	2,030,028	187,347	6,749,523	825,824	5,325,835	752,115	2,056,875	1,388,899	2,800,456	37,081,813
Total	31,362,814	3,380,678	17,066,830	8,035,050	3,566,669	22,759,004	3,447,059	20,508,285	3,293,794	8,592,971	5,677,117	9,173,426	136,863,697
Operating Expenses													
Other Services	4,521,288	7,775,334	975,323	671,940	10,466,150	3,969,992	4,166,772	2,270,196	14,038,589	6,021,619	583,610	4,186,827	59,647,640
Supplies & Materials	3,358,749	82,565	286,222	115,973	62,478	1,081,676	155,259	431,560	184,593	2,465,849	63,232	1,109,422	9,397,578
Communications	200,972	258,697	544,281	628,264	55,946	393,728	486,220	561,953	648,454	1,130,215	139,529	120,557	5,168,816
Travel	176,162	113,767	617,795	10,991	99,508	298,141	11,052	315,781	28,035	662,407	263,369	119,409	2,716,417
Rent	607,728	168,623	1,634,244	609,291	114,967	831,012	217,713	1,760,605	180,051	485,978	448,396	249,281	7,307,889
Utilities	1,025,423		12,232			383,963		75,680		343	495	213,876	1,712,012
Repair & Maintenance	179,746	17,660	56,223	25,581	7,954	173,171	13,431	127,257	67,328	64,177	7,964	197,073	937,565
Other Expenses	2,219,079	10,945,582	5,000,584	4,424,417	(11,400,707)	3,227,256	(6,871,421)	11,798,190	(18,465,236)	2,029,265	(960,521)	1,560,066	3,506,554
Goods Purchased For Resale	140,878					76,886							217,764
Total	12,430,025	19,362,228	9,126,904	6,486,457	(593,704)	10,435,825	(1,820,974)	17,341,222	(3,318,186)	12,859,853	546,074	7,756,511	90,612,235
Equipment & Intangible Assets													
Equipment		5,409	25,292			29,965	709	75,803	87,570	102,958	1,309	45,641	374,656
Capital Leases-Equipment-Nonbu	3,926				(402)		(2,310)		25,088			(5,547)	20,755
Intangible Assets										63,200			63,200
Installmnt Purchases-Equip-Nb									24,091				24,091
Total	3,926	5,409	25,292		(402)	29,965	(1,601)	75,803	136,749	166,158	1,309	40,094	482,702
Capital Outlay													
Other Improvements												3,710	3,710
Total												3,710	3,710
Local Assistance													
From State Sources	1,565,484												1,565,484
Total	1,565,484												1,565,484
Grants													
From State Sources	2,957,763		3,185					6,464,636		3,569,178		1,785,188	14,779,950
From Federal Sources	2,782,864	469,502	6,530,585					12,328,304		14,486,048	597,990	6,677,762	43,873,055
From Other Sources										869,177			869,177
Grant To Governmental Entities										1,061,169			1,061,169
Grant To Non-Governmental Ent										987,916			987,916
Total	5,740,627	469,502	6,533,770					18,792,940		20,973,488	597,990	8,462,950	61,571,267
Benefits & Claims													
To Individuals	45,174,440	433,896,265	28,938,219			99,895,538		55,877,948		4,049,288		202,238,740	870,070,438
From State Sources												33,752	33,752
From Federal Sources								98,646,608		8,090,709			106,737,317
Total	45,174,440	433,896,265	28,938,219			99,895,538		154,524,556		12,139,997		202,272,492	976,841,507
Transfers													
Accounting Entity Transfers	1,792,631	15,837,358			76,572	958,509		143,717	4,208,268	175,000		(4,098,431)	19,093,624
Intra-Entity Expense		(721,761)											(721,761)
Total	1,792,631	15,115,597			76,572	958,509		143,717	4,208,268	175,000		(4,098,431)	18,371,863
Debt Service													
Bonds	1,917,591					1,023,485							2,941,076
Loans			901										901
Capital Leases												12,630	12,630
Installment Purchases	106,901		83,859		8,390		36,576		302,448				538,174
Total	2,024,492		84,760		8,390	1,023,485	36,576		302,448			12,630	3,492,781
Total Expenditures & Transfers-Out	\$ 100,094,439	\$ 472,229,679	\$ 61,775,775	\$ 14,521,507	\$ 3,057,525	\$ 135,102,326	\$ 1,661,060	\$ 211,386,523	\$ 4,623,073	\$ 54,907,467	\$ 6,822,490	\$ 223,623,382	\$ 1,289,805,246
EXPENDITURES & TRANSFERS-OUT BY FUND													
General Fund	\$ 46,802,466	\$ 104,356,169	\$ 30,957,212	\$ 2,693,631	\$ 373,142	\$ 48,561,781	\$ 1,153,709	\$ 29,426,025	\$ (7,083)	\$ 3,017,410	\$ 1,740,603	\$ 47,130,721	\$ 316,205,786
State Special Revenue Fund	14,049,335	45,012,617	2,398,300	2,309,372	73,282	2,873,991	522,246	2,606,060	13,025	11,421,881	140,609	23,153,482	104,574,200
Federal Special Revenue Fund	37,324,782	322,860,893	28,420,263	9,518,504	2,611,101	82,643,068	(14,895)	179,354,438	408,864	40,468,176	4,941,278	153,339,179	861,875,651
Debt Service Fund	1,917,856					1,023,486							2,941,342
Permanent Fund									4,208,267				4,208,267
Total Expenditures & Transfers-Out	100,094,439	472,229,679	61,775,775	14,521,507	3,057,525	135,102,326	1,661,060	211,386,523	4,623,073	54,907,467	6,822,490	223,623,382	1,289,805,246
Less: Nonbudgeted Expenditures & Transfers-Out	3,773,396	25,394,430	4,919,752	4,295,700	(11,452,359)	3,236,865	(7,214,250)	13,171,986	(14,369,182)	1,860,394	(986,672)	(2,958,510)	19,671,550
Prior Year Expenditures & Transfers-Out Adjustments	(1,286,850)	(13,659,843)	(236,135)	52,733	(30,770)	(208,951)	(6,570)	(1,553,800)	11,338	(1,286,204)	(7,743)	(951,378)	(19,164,173)
Actual Budgeted Expenditures & Transfers-Out	97,607,893	460,495,092	57,092,158	10,173,074	14,540,654	132,074,412	8,881,880	199,768,337	18,980,917	54,333,277	7,816,905	227,533,270	1,289,297,869
Budget Authority	105,782,167	535,846,733	58,735,352	10,456,506	27,683,553	136,217,910	9,567,683	240,262,227	20,439,581	59,957,768	8,949,435	250,585,223	1,464,484,138
Unspent Budget Authority	\$ 8,174,274	\$ 75,351,641	\$ 1,643,194	\$ 283,432	\$ 13,142,899	\$ 4,143,498	\$ 685,803	\$ 40,493,890	\$ 1,458,664	\$ 5,624,491	\$ 1,132,530	\$ 23,051,953	\$ 175,186,269
UNSPENT BUDGET AUTHORITY BY FUND													
General Fund	\$ 544,596	\$ 2,103,180	\$ 206,382	\$ 21,410	\$ 333,316	\$ 739,149	\$ 92,406	\$ 104,203	\$ 203,429	\$ 8,313	\$ 199,533	\$ 811,913	\$ 5,367,830
State Special Revenue Fund	556,661	9,703,307	214,127	96,536	83,013	537,874	109,588	85,183	89,342	709,541	130,747	5,076,122	17,392,041
Federal Special Revenue Fund	7,073,017	63,545,154	1,222,685	165,486	12,726,570	2,866,475	483,809	40,304,504	1,165,893	4,906,637	802,250	17,163,918	152,426,398
Unspent Budget Authority	\$ 8,174,274	\$ 75,351,641	\$ 1,643,194	\$ 283,432	\$ 13,142,899	\$ 4,143,498	\$ 685,803	\$ 40,493,890	\$ 1,458,664	\$ 5,624,491	\$ 1,132,530	\$ 23,051,953	\$ 175,186,269

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DEPARTMENT OF PUBLIC HEALTH & HUMAN SERVICES  
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Addictive & Mental Disorders	Child & Adult Health Resources	Child & Family Services	Child Support Enforcement	Director's Office	Disability Services Division	Fiscal Services Division	Human & Community Services	Operations & Technology	Public Health & Safety Division	Quality Assurance Division	Senior & Long-Term Care	Total
Personal Services													
Salaries	\$ 19,694,888	\$ 2,496,600	\$ 11,683,533	\$ 5,762,585	\$ 2,954,235	\$ 15,829,088	\$ 2,429,093	\$ 14,001,801	\$ 2,405,123	\$ 6,185,942	\$ 4,007,106	\$ 5,863,280	\$ 93,313,274
Hourly Wages						9,319							9,319
Other Compensation											13,600		13,600
Employee Benefits	8,442,988	762,013	3,832,688	1,876,035	518,460	6,366,805	747,352	4,814,588	689,295	1,870,057	1,229,113	2,474,486	33,623,880
Total	28,137,876	3,258,613	15,516,221	7,638,620	3,472,695	22,205,212	3,176,445	18,816,389	3,094,418	8,055,999	5,249,819	8,337,766	126,960,073
Operating Expenses													
Other Services	4,421,122	7,423,753	1,283,460	701,873	6,217,426	4,742,373	4,229,379	2,217,215	13,082,780	8,796,976	582,688	4,244,527	57,943,572
Supplies & Materials	3,390,400	139,707	361,394	122,223	46,284	1,172,827	126,559	401,640	120,669	2,787,789	175,489	1,010,973	9,855,954
Communications	181,857	315,183	466,476	613,056	53,075	397,799	293,856	857,450	620,767	437,497	130,277	189,593	4,556,886
Travel	189,016	68,639	539,541	31,434	60,900	331,292	9,654	287,860	18,710	629,016	225,149	141,597	2,532,808
Rent	592,204	155,005	1,505,351	572,052	114,155	835,453	218,551	1,711,224	161,501	481,831	432,375	222,414	7,002,116
Utilities	966,128	3	12,322			369,133		79,871	1	43	153	211,891	1,639,545
Repair & Maintenance	197,830	22,222	61,435	20,458	8,471	199,332	25,980	111,987	76,885	92,410	6,081	152,479	975,570
Other Expenses	1,443,972	11,026,422	4,740,995	4,218,653	(9,441,100)	3,251,230	(6,872,716)	11,658,830	(18,915,702)	1,900,990	(952,387)	1,429,575	3,488,762
Goods Purchased For Resale	147,683					47,433							195,116
Total	11,530,212	19,150,934	8,970,974	6,279,749	(2,940,789)	11,346,872	(1,968,737)	17,326,077	(4,834,389)	15,126,552	599,825	7,603,049	88,190,329
Equipment & Intangible Assets													
Equipment	24,868			5,700		68,120		44,507		231,662	7,644	100,165	482,666
Capital Leases-Equipment-Nonbu	102,450				5,613		35,613		224,047			45,009	412,732
Intangible Assets											16,969		16,969
Total	127,318			5,700	5,613	68,120	35,613	44,507	224,047	248,631	7,644	145,174	912,367
Capital Outlay													
Other Improvements								53,007				36,290	89,297
Total								53,007				36,290	89,297
Local Assistance													
From State Sources	1,988,408												1,988,408
Total	1,988,408												1,988,408
Grants													
From State Sources	3,986,104							7,488,619		4,175,022		1,774,192	17,423,937
From Federal Sources	3,264,865	189,278	6,222,535					11,436,474		14,889,014	539,696	6,432,200	42,974,062
From Other Sources										(40,813)		40,000	(813)
Total	7,250,969	189,278	6,222,535					18,925,093		19,023,223	539,696	8,246,392	60,397,186
Benefits & Claims													
To Individuals	46,288,688	451,653,774	28,800,327			97,089,606		63,118,310		3,662,864		196,781,842	887,395,411
From State Sources			5,861									38,464	44,325
From Federal Sources													106,769,634
Total	46,288,688	451,653,774	28,806,188			97,089,606		98,902,589		7,867,045		196,820,306	994,209,370
Transfers													
Accounting Entity Transfers	1,775,375	1,295,502				950,664	6,511	143,466	3,387,526			2,652,808	10,211,852
Intra-Entity Expense		721,761											721,761
Total	1,775,375	2,017,263				950,664	6,511	143,466	3,387,526			2,652,808	10,933,613
Debt Service													
Bonds	1,922,051					1,026,084							2,948,135
Loans			977										977
Capital Leases							7,205					9,744	16,949
Installment Purchases	107,423	2,282	83,858		13,068		60,510		307,593				574,734
Total	2,029,474	2,282	84,835		13,068	1,026,084	67,715		307,593			9,744	3,540,795
Total Expenditures & Transfers-Out	\$ 99,128,320	\$ 476,272,144	\$ 59,600,753	\$ 13,924,069	\$ 550,587	\$ 132,686,558	\$ 1,317,547	\$ 217,329,438	\$ 2,179,195	\$ 53,984,314	\$ 6,396,984	\$ 223,851,529	\$ 1,287,221,438
EXPENDITURES & TRANSFERS-OUT BY FUND													
General Fund	\$ 45,723,260	\$ 104,445,045	\$ 27,290,139	\$ 2,422,791	\$ 60,761	\$ 47,554,340	\$ 1,171,617	\$ 31,090,892	\$ (99,260)	\$ 2,269,631	\$ 1,590,082	\$ 46,966,999	\$ 310,486,297
State Special Revenue Fund	13,290,453	25,826,690	2,069,918	2,321,961	94,722	2,434,342	420,631	2,535,393	70,953	11,603,409	114,143	25,308,275	86,090,890
Federal Special Revenue Fund	38,192,556	346,000,409	30,240,696	9,179,317	395,104	81,671,791	(274,701)	183,703,153	(1,180,025)	40,111,274	4,692,759	151,576,255	884,308,588
Debt Service Fund	1,922,051					1,026,085							2,948,136
Permanent Fund									3,387,527				3,387,527
Total Expenditures & Transfers-Out	99,128,320	476,272,144	59,600,753	13,924,069	550,587	132,686,558	1,317,547	217,329,438	2,179,195	53,984,314	6,396,984	223,851,529	1,287,221,438
Less: Nonbudgeted Expenditures & Transfers-Out	3,323,151	11,640,558	4,627,598	4,114,890	(9,448,871)	3,241,197	(7,146,028)	13,118,354	(15,446,930)	1,613,405	(982,387)	3,778,173	12,433,110
Prior Year Expenditures & Transfers-Out Adjustments	(435,380)	8,448,712	(458,352)	9,634	(37,833)	(40,473)	(14,843)	(782,537)	465,874	(475,861)	53,765	(1,945,265)	4,787,441
Actual Budgeted Expenditures & Transfers-Out	96,240,549	456,182,874	55,431,507	9,799,545	10,037,291	129,485,834	8,478,418	204,993,621	17,160,251	52,846,770	7,325,606	222,018,621	1,270,000,887
Budget Authority	103,257,784	492,761,290	56,215,744	10,423,432	11,825,562	132,366,320	8,799,079	231,578,066	18,837,846	59,710,872	8,238,554	245,693,070	1,379,707,619
Unspent Budget Authority	\$ 7,017,235	\$ 36,578,416	\$ 784,237	\$ 623,887	\$ 1,788,271	\$ 2,880,486	\$ 320,661	\$ 26,584,445	\$ 1,677,595	\$ 6,864,102	\$ 912,948	\$ 23,674,449	\$ 109,706,732
UNSPENT BUDGET AUTHORITY BY FUND													
General Fund	\$ 36,614	\$ 1,183,955	\$ 52,109	\$ 380,922	\$ 45,330	\$ 579,061	\$ 96,218	\$ 32,675	\$ 19,772	\$ 697,102	\$ 144,997	\$ 442,335	\$ 3,711,090
State Special Revenue Fund	3,635,214	8,124,906	78,614	88,167	111,165	375,323	47,613	112,245	121,942	440,551	84,184	5,409,617	18,629,541
Federal Special Revenue Fund	3,345,407	27,269,555	653,514	154,798	1,631,776	1,926,102	176,830	26,439,525	1,535,881	5,726,449	683,767	17,822,497	87,366,101
Unspent Budget Authority	\$ 7,017,235	\$ 36,578,416	\$ 784,237	\$ 623,887	\$ 1,788,271	\$ 2,880,486	\$ 320,661	\$ 26,584,445	\$ 1,677,595	\$ 6,864,102	\$ 912,948	\$ 23,674,449	\$ 109,706,732

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.  
Additional information is provided in the notes to the financial schedules beginning on page A-11.

# Department of Public Health and Human Services

## Notes to the Financial Schedules

### For the Two Fiscal Years Ended June 30, 2007

#### 1. Summary of Significant Accounting Policies

##### **Basis of Accounting**

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue, Debt Service, and Permanent). In applying the modified accrual basis, the department records:

- ♦ Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- ♦ Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual and sick leave when used or paid.

The department uses accrual basis accounting for its Fiduciary fund category (Agency). Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period when realizable, measurable, and earned, and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

##### **Basis of Presentation**

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The department uses the following funds:

##### **Governmental Fund Category**

- ♦ **General Fund** – to account for all financial resources except those required to be accounted for in another fund.
- ♦ **State Special Revenue Fund** – to account for proceeds of specific revenue sources that are legally restricted to expenditures for specific state program

purposes. Activity in the department's State Special Revenue Fund includes the Public Health Laboratory, free weatherization, child support incentive payments, cigarette tax revenue, and third party liability recoveries. The fund also accounts for activity at the Montana Developmental Center, the Montana Mental Health Nursing Care Center, the Montana Chemical Dependency Center, and the Montana State Hospital supported by insurance and individual payments.

- ♦ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. The majority of the activity recorded in the department's Federal Special Revenue Fund includes federal grants such as Medicaid; Temporary Assistance to Needy Families; Low-Income Home Energy Assistance Program; Vocational Rehabilitation; Child Support Enforcement; Foster Care; Women, Infants, and Children; Food Stamps; Child and Adult Nutrition; Children's Health Insurance Plan; Social Services Block Grant; Adoption Assistance; Center for Disease Control; Substance Abuse, Prevention and Treatment; and Child Care Development Fund Grant programs.
- ♦ **Debt Service Fund** – to account for accumulated resources for the payment of general long-term debt principal and interest. The department accounts for the Montana State Hospital and Montana Developmental Center bond payments in this fund.
- ♦ **Permanent Fund** – to account for financial resources that are permanently restricted to the extent that only earnings, and not principal, may be used for purposes that support the department's programs. The department accounts for Endowment of Children and the Montana Tobacco Settlement activity in this fund.

### **Fiduciary Fund Category**

- ♦ **Agency Fund** – to account for resources held by the state in a custodial capacity. Agency Funds may be used on a limited basis for internal (to the state) clearing account activity but these must have a zero balance at fiscal year-end. The department uses Agency Funds to account for child support payments collected on behalf of children and distributed to custodial parents or guardians. Agency Funds also include moneys belonging to foster care children, residents of care facilities, and damage deposits for departmental housing.

## **2. General Fund Balance**

The negative fund balance in the General Fund does not indicate overspent appropriation authority. The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department expends cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative General Fund balances for each of the fiscal years ended June 30, 2007, and June 30, 2006.

### **3. Direct Entries to Fund Balance**

The department recorded \$307,858,992 and \$289,154,942 of direct entries to fund balance in the General Fund during fiscal years 2006-07, and 2005-06, respectively. Most of the direct entries to fund balance in the General Fund result from entries generated by SABHRS to reflect the flow of resources within the fund between separate agencies.

Direct entries to fund balances in the State Special Revenue Fund include activities related to earmarked alcohol funds, cigarette tax, tobacco health, and Medicaid hospital and nursing home utilization, handicapped telecommunications, and resulted from entries generated by SABHRS to reflect the flow of resources within the fund between separate agencies.

### **4. Nonbudgeted Activity**

The department recorded Nonbudgeted Revenues and Transfers-In related to food stamp benefits of \$89.5 million and \$90 million in the Federal Special Revenue Fund in fiscal years 2006-07, and 2005-06, respectively. Expenditure abatements (negative amounts) in the “Other Expenses” expenditure class are related to the department’s cost allocation plan for fiscal years 2006-07, and 2005-06.

### **5. Prior Year Activity**

The department recorded Prior Year Revenues and Expenditures of approximately a negative \$15 million related to accruals in the Federal Special Revenue Fund in fiscal year 2006-07, of which, approximately \$12 million is related to the Medicaid Accrual.



DEPARTMENT OF  
PUBLIC HEALTH AND  
HUMAN SERVICES

DEPARTMENT RESPONSE



DEPARTMENT OF  
PUBLIC HEALTH AND HUMAN SERVICES

B-3



BRIAN SCHWEITZER  
GOVERNOR

JOAN MILES  
DIRECTOR

STATE OF MONTANA

www.dphhs.mt.gov

October 17, 2007

Scott A. Seacat  
Legislative Auditor  
Room 135, State Capitol  
PO Box 201705  
Helena MT 59620-1705

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OCT 18 2007

LEGISLATIVE AUDIT DIV.

Dear Mr. Seacat:

We have reviewed the recommendations in the Department of Public Health and Human Services Financial Compliance Audit for the two fiscal years ending June 30, 2007. Our responses follow:

**Recommendation #1**

**We recommend the department:**

- a. Continue to enhance compliance with state law related to vacation leave, and
- b. Charge only allowable leave cost to federal programs.

**Concur**

The department published new vacation and compensatory leave policies on May 23, 2006. Under the department's operating procedures, we monitor and report excess leave balances to department management quarterly. The effectiveness of the new policies and operating procedures is demonstrated in the auditor's conclusion that "as of January 2007, the department does not have any employees with accumulated vacation leave balances in excess of the amount allowed under state law". We will discuss allowability of the questioned cost with our federal granting agencies.

**Recommendation #2**

**We recommend the department:**

- a. Continue to enhance compliance with state policy related to compensatory time, and
- b. Charge only allowable exempt compensatory time to federal programs.

**Concur**

As discussed in response number one, our revised policies are effective in actively managing compensatory time. We will continue to monitor our compensatory leave balances quarterly and will discuss allowability of the questioned cost with our federal granting agencies.

**Recommendation #3**

**We recommend the department implement procedures to ensure Women, Infants and Children local agencies obtain proof of identity and documentation of income as required by federal regulations.**

**Concur**

DPHHS monitors all local WIC agencies every two years. During these monitoring visits the agency charts are reviewed to ensure all required documentation is completed. The policy and procedures for this review task are included in the 2008 WIC State Plan for Montana. If the department receives information indicating a local WIC agency is at increased risk of non-compliance, additional monitoring visits or methods will be considered.

The local agency whose charts did not contain the required documentation is working with DPHHS to proceed through a corrective action plan specific to their organization. This agency will be monitored at least quarterly until DPHHS determines that the contractor is in full compliance with all WIC program requirements and has fully remediated the documentation deficiencies in all participant files.

**Recommendation # 4**

**We recommend the department:**

- a. Conduct timely monitoring reviews of Women, Infants and Children local agencies in accordance with federal regulations,**
- b. Promptly notify the local agencies of noncompliance findings in accordance with federal regulations, and**
- c. Obtain corrective action plans from local agencies within 60 days, in accordance with federal regulations.**

**Concur**

We are committed to continued improvement in our local agency monitoring responsibilities. In June of this year the Public Health and Safety Division reassigned duties to provide an additional ½ an FTE to the monitoring function.

**Recommendation # 5**

**We recommend the department perform Women, Infants and Children compliance investigations in accordance with federal regulations and department policy.**

**Concur**

The WIC program is currently revising their procedures to ensure compliance investigations are completed according to federal regulation and department policies. The new business process and procedures will be completed by 10/31/07.

**Recommendation # 6**

**We recommend the department maintain adequate documentation of tuberculosis testing expenditures charged to the federal Substance Abuse, Prevention and Treatment grant in accordance with federal regulations.**

**Concur**

The department will utilize the method developed in 2006-2007 to determine the appropriate amount of tuberculosis expenditures for 2005-2006. All expenditures not supported by this documentation will be removed from the Substance, Abuse, Prevention and Treatment grant.

**Recommendation #7**

**We recommend the department implement procedures to ensure Bioterrorism grant expenditures are allowable under federal regulations.**

**Concur**

The Public Health and Safety Division has implemented additional procedures to ensure that all expenditure distributions from the general fund to Bioterrorism are allowable. The duplicate transactions have been corrected and other allowable expenditures charged to Bioterrorism in their place.

**Recommendation No. 8:**

**We recommend the department ensure adoptions receiving IV-E funding are eligible for funding in accordance with federal regulations.**

**Concur**

The Department has centralized the Title IV-E eligibility function, including the determination of a child's eligibility for Title IV-E subsidized adoption. All procedures to assure the child's eligibility for newly-established adoption subsidies are in place.

The Child and Family Services Division will develop a strategy to review existing Title IV-E subsidized adoption cases as to the child's eligibility for the federal subsidy at the time the adoption was finalized and will implement the strategy by June 30, 2008.

**Recommendation No. 9:**

**We recommend the department implement procedures to ensure supporting documentation related to providing adoption without a subsidy is included in each adoption case file in accordance with federal regulations.**

**Concur**

The Department has centralized the subsidy negotiation function and will develop procedures to ensure documentation of 1) the factors which make the child eligible for a subsidy and 2) the efforts made to place the child without a subsidy are in the adoption case file. These procedures shall be implemented by December 31, 2007.

**Recommendation No. 10:**

**We recommend the department implement procedures to ensure foster care and adoption payment corrections and rate adjustments are adequately documented in accordance with federal regulations.**

**Concur**

The Child and Family Services Division has implemented a procedure requiring each regional fiscal officer and the Fiscal and Operations Bureau to maintain a file containing documentation for each payment correction and rate adjustment.

**Recommendation #11**

**We recommend the department conduct security reviews and risk analyses of data processing systems used to administer Medicaid as required by federal regulations.**

**Concur**

The Technology Services Division Security Officer will coordinate/conduct the periodic security reviews and risk analyses required by federal regulations. The reviews for all current Medicaid administration systems will be completed by June 30, 2008.

**Recommendation # 12**

**We recommend the department comply with state policies regarding the collection of Medicaid overpayments to inpatient hospitals.**

**Concur**

The Business and Financial Services Division and Health Resources Division are updating procedures to ensure current operations comply with existing state policy. The procedure review and revision process will be completed by November 15, 2007.

**Recommendation # 13**

**We recommend the department provide drug utilization data to manufactures within 60 days after the end of the quarter as required by federal regulations.**

**Concur**

The Health Resources Division has modified their procedures to ensure drug rebate invoices are provided to manufacturers within 60 days of the quarter as required.

**Recommendation #14**

**We recommend the department segregate electronic benefit transfer system code change and review responsibilities.**

**Concur**

The Technology Services Division will complete a risk analysis of the electronic benefits transfer system by June 30, 2008. The results of the risk analysis will be used to develop an appropriate mitigation strategy for code change and review segregation.

**Recommendation #15**

**We recommend the department provide the contractor's full electronic benefits transfer system database access only when needed.**

**Concur**

Based on findings from the electronic benefits transfer system risk analysis discussed above, the department will limit, where possible, the access provided to the contractor. If there are areas where full access is required the department will develop processes and logging to ensure appropriate security controls are in place.

**Recommendation #16**

**We recommend the department improve benefit recipient identification procedures to detect unauthorized acquisition of replacement Montana Access cards.**

**Concur**

The department will review existing fraud prevention procedures by June 30, 2008. Additional tools and/or processes that provide a reasonable balance between cost, client access and effectiveness will be implemented.

**Recommendation #17**

**We recommend the department implement procedures to ensure fund balance transfer and valid liability transactions are recorded in accordance with state law.**

**Concur**

The Business and Financial Services Division will strengthen its journal process and fund review procedures to ensure errors are prevented or detected in a timely manner. In addition, the Departments fiscal year end closing process will be adjusted to allow for quality financial report reviews prior to the close of each fiscal year.

**Recommendation #18**

**We recommend the department implement procedures to process payments to vendors in compliance with state law.**

**Concur**

The Department has improved the vendor payment procedures to ensure that completed invoices are paid within the 30 days as required and to fully document payments delayed due to incomplete invoices.

**Recommendation No. 19: We recommend the department**

**(a) Adopt administrative rules in accordance with state laws, related to medical benefits for adopted children residing in another state and ..**

**Concur:**

The department will adopt the recommended rules related to medical benefits for adoption children residing in another state by November 30, 2008.

**(b) Send annual adoption applications for subsidy and medical assistance to adoptive parents in accordance with administrative rule.**

**Concur**

Until such time as ARM 37.52.210 can be repealed, the Department will send annual applications for subsidy and medical assistance. A notice related to the annual requirement will be sent to adoptive parents receiving a subsidy by November 30, 2007.

Sincerely,

A handwritten signature in cursive script, appearing to read "Joan Miles".

Joan Miles,  
Director